

corresponding to such Series 1999 General Mortgage Bonds when such payments become due, the Company is required to pay the amounts required from time to time to make up any such deficiency. The Company will be entitled to a credit for amounts due under the Loan Agreement to the extent of credits on payment due under the Series 1999 General Mortgage Bonds as provided in the Indenture.

Maintenance of Existence

Except as prescribed in the General Mortgage Indenture, the Company agrees that during the term of the Loan Agreement and so long as any Series 1999 Bond is outstanding, it will maintain its corporate existence, will continue to be a corporation in good standing under the laws of the State of Illinois, will not dissolve or otherwise dispose of all or substantially all of its assets (other than pursuant to a condemnation of its properties or the like over which it has no control) and will not consolidate with or merge into another legal entity or permit one or more other legal entities (other than one or more subsidiaries of the Company) to consolidate with or merge into it, or sell or otherwise transfer to another legal entity all or substantially all its assets as an entirety and dissolve, unless (a) in the case of any merger or consolidation, the Company is the surviving corporation, or (b)(i) the surviving, resulting or transferee legal entity is organized and existing under the laws of the United States, a state thereof or the District of Columbia, and (if not the Company) assumes in writing all the obligations of the Company under the Loan Agreement, the General Mortgage Indenture and the Series 1999 General Mortgage Bonds, and (ii) no event which constitutes, or which with the giving of notice or the lapse of time or both would constitute, an Event of Default shall have occurred and be continuing immediately after such merger, consolidation or transfer.

Covenants Relating to the Exclusion of Interest Paid on the Bonds

The Company covenants in the Loan Agreement that, so long as any of the Series 1999 Bonds remain outstanding, it will not knowingly take or authorize or permit, to the extent such action is within the control of the Company, any action to be taken with respect to the Project or the proceeds of the Series 1999 Bonds (including investment earnings thereon), or any other proceeds derived directly or indirectly in connection with the Project, which will result in the loss of the exclusion of interest on the Series 1999 Bonds from the gross income of the owners of the Series 1999 Bonds for federal income tax purposes; and the Company also will not knowingly omit to take any action in its power which, if omitted, would cause such a result.

Remedies on Default

Upon the occurrence and continuation of an Event of Default under the Indenture, the Trustee may take whatever action may appear necessary or desirable to collect the payments then due and to become due, or to enforce performance of any agreement of the Company under the Loan Agreement or in the General Mortgage Bonds. Other than a failure to pay to the Trustee amounts sufficient to enable the Trustee to pay principal and interest on the Series 1999 Bonds when due, the failure of the Company to observe or perform its covenants under the Loan Agreement will not result in an Event of Default under the Indenture which would permit the Trustee to declare the principal of and accrued interest on the Series 1999 Bonds to be immediately due and payable.

THE INDENTURE

The following, in addition to information contained under the headings "INTRODUCTION", "SECURITY FOR THE SERIES 1999 BONDS" and "THE SERIES 1999 BONDS" is a summary of certain provisions of the Indenture.

Pledge and Security

Pursuant to the Indenture, the Authority will assign to the Trustee and has granted the Trustee a security interest in all right, title and interest of the Authority in, under and to (a) the Series 1999 General Mortgage Bonds and the Loan Agreement, including the current and continuing right to claim, collect, receive and give receipts for all amounts payable by or receivable from the Company under the Series 1999 General Mortgage Bonds and the Loan Agreement (excluding amounts payable to meet the rebate requirements of the Code), to bring actions and proceedings under the Series 1999 General Mortgage Bonds and the Loan Agreement or for the enforcement of the Series 1999 General Mortgage Bonds and the Loan Agreement and to do all things that the Authority is entitled to do under the Series 1999 General Mortgage Bonds and the Loan Agreement (except for certain rights of the Authority to certain consents, fees, indemnification and expense payments), (b) all moneys and securities held from time to time by the Trustee under the Indenture, except the Rebate Fund and as otherwise provided in the Indenture, and (c) all proceeds of the foregoing, for the equal and proportionate benefit of all holders of the Series 1999 Bonds without priority or distinction as to lien or otherwise of any Series 1999 Bonds over any other Series 1999 Bonds. To the extent provided in the Indenture, the Trustee will have a senior claim on certain amounts held by it under the Indenture for the payment of its compensation and expenses and for the repayment of advances made by it to effect performance of certain covenants in the Indenture.

Defaults

The Indenture provides that each of the following will constitute an "Event of Default" thereunder:

- (a) Failure to make due and punctual payment of any interest on any Series 1999 Bond which continues for 10 days;
- (b) Failure to make payment of principal on any Series 1999 Bond when due, at maturity, upon acceleration or redemption or otherwise;
- (c) Failure to purchase any Bonds upon presentation for purchase in accordance with the terms and provisions of the Bonds; and
- (d) An "event of default" as defined in the General Mortgage Indenture shall have occurred.

Remedies

The Indenture provides that on the occurrence and continuation of an Event of Default described in (a), (b) or (c) above or on the occurrence and continuation of an Event of Default described in (d) above and, as a result thereof payment of the Series 1999 General Mortgage Bonds shall have been accelerated under the General Mortgage Indenture, the Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer or the holders of at least 25% in aggregate principal amount of the Series

1999 Bonds then outstanding, with the consent of the Bond Insurer, by written notice to the Authority, the Company and the Bond Insurer, declare the principal of and accrued interest on the Series 1999 Bonds to be due and payable immediately and such principal and interest shall thereupon become and be immediately due and payable. The Trustee shall immediately give notice of acceleration to the Bondholders. Upon any declaration of acceleration, the Trustee will immediately exercise such rights as it may have as the holder of the Series 1999 General Mortgage Bonds and under the Loan Agreement including the right to demand acceleration of the Series 1999 General Mortgage Bonds held by it.

The Trustee, upon the request of the Bond Insurer or the holders of a majority in aggregate principal amount of the Series 1999 Bonds then outstanding, with the consent of the Bond Insurer, shall rescind an acceleration and its consequences if all existing Events of Default have been cured or waived, unless (a) the rescission would conflict with any judgment or decree or (b) all payments due to the Trustee have not been made.

Subject to the rights of the Bond Insurer under the Bond Insurance Policy, if an Event of Default occurs and is continuing, the Trustee before or after declaring the principal of and interest on the Series 1999 Bonds to be immediately due and payable may, and upon request of the holders of at least 25% in aggregate principal amount of the Series 1999 Bonds then outstanding shall, pursue every right granted to it as a holder of the Series 1999 General Mortgage Bonds and any available remedy by proceeding at law or in equity to collect the principal of, or interest on, the Series 1999 Bonds or to enforce the performance of any provision of the Series 1999 Bonds, the Indenture, the Series 1999 General Mortgage Bonds or the Loan Agreement.

Subject to the rights of the Bond Insurer under the Bond Insurance Policy, the holders of a majority in aggregate principal amount of the Series 1999 Bonds then outstanding may waive an existing Event of Default and its consequences. No such waiver shall apply to any subsequent or other Event of Default.

The Bond Insurer or the holders of a majority in aggregate principal amount of the Series 1999 Bonds then outstanding, with the consent of the Bond Insurer, may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture or if the Trustee determines that it is unduly prejudicial to the rights of other owners of the Series 1999 Bonds or would involve the Trustee in personal liability.

No holder of any Series 1999 Bond may pursue any remedy under the Indenture or the Series 1999 Bonds unless (a) the holder gives the Trustee notice stating that an Event of Default is continuing, (b) the holders of at least 25% in aggregate principal amount of the Series 1999 Bonds then outstanding, with the consent of the Bond Insurer, make a written request to the Trustee to pursue the remedy, (c) such holder or holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense and (d) the Trustee does not comply with such request within 60 days after receipt of the request and the offer of indemnity.

Any moneys collected by the Trustee as the result of an Event of Default shall be applied first to the Rebate Fund for amounts, if any, to be paid pursuant to the Indenture and the Tax Exemption Certificate and Agreement delivered upon issuance of the Series 1999 Bonds, second to the Trustee for the payment of the costs and expenses of the proceedings under which such money was collected, third, unless the principal of all the Series 1999 Bonds shall have become due and payable, to Bondholders to the payment of interest due in the order of maturity, with interest on defaulted interest (to the extent permitted by law), then to the

at of principal which has become due, and then to redemption premium, if any, due, fourth to the Insurer in connection with any payments made with respect to the Bond Insurance Policy, and fifth to Company. If the principal of all the Series 1999 Bonds shall have become due and payable, all such moneys shall be applied to the payment of the principal and accrued interest then due with interest on overdue principal (to the extent permitted by law), without preference or priority of principal over interest or interest over principal, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference. The Trustee will give notice by publication or mailing of such payments and the date therefor.

Amendment of and Supplements to Indenture

The Indenture provides that the Authority and the Trustee may, with the consent of the Bond Insurer, amend or supplement the Indenture or the Series 1999 Bonds, without notice to or the consent of any Bondholder, for any of the following purposes:

- (a) to cure any ambiguity, inconsistency or formal defect or omission;
- (b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority;
- (c) to subject to the Indenture additional collateral or add other agreements of the Authority;
- (d) to modify the Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, or any similar Federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;
- (e) to evidence the succession of a new trustee or the appointment of a co-trustee under the Indenture;
- (f) to provide for the refunding or advance refunding of the Series 1999 Bonds; or
- (g) to make any change that does not materially adversely affect the rights of any Bondholder.

In addition to amendments and supplements permitted as described above, the Authority and the Trustee may, with the prior written consent of the Bond Insurer, amend or supplement the Indenture upon not more than 60 and not less than 30 days' notice to the Bondholders and with the consent of the holders of at least a majority in aggregate principal amount of the Series 1999 Bonds then outstanding, except that no amendment or supplement to the Indenture shall, without the consent of each Bondholder affected, (i) extend the maturity of the principal, or the interest on, any Series 1999 Bond; (ii) reduce the principal amount of, or the rate of interest on, any Series 1999 Bond; (iii) effect a privilege or priority of any Series 1999 Bond or Series 1999 Bonds over any other Series 1999 Bond or Series 1999 Bonds; (iv) reduce the percentage of the principal amount of the Series 1999 Bonds required for consent to such amendment or supplement; (v) impair the exclusion of interest on the Series 1999 Bonds from the federal gross income of the owner of any Series 1999 Bond; (vi) eliminate any mandatory redemption of the Series 1999 Bonds, extend any mandatory redemption date or reduce the redemption price of such Series 1999 Bonds; (vii) create a lien ranking prior to or on a parity with the lien of the Indenture on the property described in

the granting clause of the Indenture; or (viii) deprive any Bondholder of the lien created by the Indenture on such property. If moneys or Government Securities have been deposited or set aside with the Trustee pursuant to the applicable provisions of the Indenture for the payment of Series 1999 Bonds and those Series 1999 Bonds have not in fact been actually paid in full, no amendment to such provisions of the Indenture shall be made without the consent of the holder of each of the Series 1999 Bonds affected.

The Trustee will sign any amendment or supplement to the Indenture or the Series 1999 Bonds authorized by the Indenture if the amendment or supplement does not adversely affect its rights, duties, liabilities or immunities. If it does, the Trustee may, but need not, sign it. In signing an amendment or supplement, the Trustee is entitled to receive and (subject to certain provisions in the Indenture) will be fully protected in relying on an opinion of counsel stating that such amendment or supplement is authorized by the Indenture. No amendment or supplement to the Indenture or the Series 1999 Bonds will become effective without the written consent of the Company delivered to the Trustee.

After an amendment or supplement becomes effective, it will bind every Bondholder. For purposes of determining the total number of Bondholders' consents, each Bondholder's consent will be effective with respect to the Bondholder who consented to it and each subsequent holder of a Series 1999 Bond or portion of a Series 1999 Bond evidencing the same debt as the consenting holder's Series 1999 Bond.

Amendment of and Supplements to the Loan Agreement

The Indenture provides that, with the prior written consent of the Bond Insurer, the Authority may enter into, and the Trustee may consent to, any amendment of or supplement to the Loan Agreement without notice to or the consent of any Bondholder, if the amendment or supplement is required or permitted (a) by the provisions of the Loan Agreement or the Indenture, (b) to cure any ambiguity, inconsistency or formal defect or omission, (c) in connection with any authorized amendment of or supplement to the Indenture, or (d) to make any change that does not materially adversely affect the rights of any Bondholder.

In addition to amendments and supplements permitted as described above, the Authority may, with the prior written consent of the Bond Insurer, enter into, and the Trustee may consent to amendments of or supplements to the Loan Agreement upon not more than 60 and not less than 30 days' notice to the Bondholders and with the consent of the holders of at least a majority in aggregate principal amount of the Series 1999 Bonds then outstanding. However, without the consent of each Bondholder affected, no amendment or supplement may have any of the effects described in clauses (i) through (viii) under "Amendment of and Supplements to Indenture" above.

The Trustee will consent to any amendment or supplement to the Loan Agreement authorized by the Indenture if the amendment or supplement does not adversely affect its rights, duties, liabilities or immunities. If it does, the Trustee may, but need not, sign it. In signing a consent to an amendment or supplement, the Trustee shall be entitled to receive and (subject to certain provisions in the Indenture) shall be fully protected in relying on an opinion of counsel stating that such amendment or supplement is authorized by the Indenture.

Discharge of Indenture

When a Series 1999 Bond is deemed paid, it will no longer be an obligation of the Authority, and it will no longer be secured by or entitled to the benefits of the Indenture or the related Series 1999 General

Mortgage Bonds, except for payment from the funds deposited pursuant to clause (a)(2) below, and except that it may be transferred, exchanged, registered, or replaced as provided in the Indenture. Any Series 1999 Bond will be deemed paid for the purposes of the Indenture when (a) payment of the principal of, premium, if any, and interest on the Series 1999 Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) either (1) has been made in accordance with the terms of the Series 1999 Bonds or (2) has been provided for by depositing with the Trustee (A) moneys sufficient to make such payment and/or (B) bonds, notes, certificates of indebtedness, treasury bills or other securities constituting direct obligations of the United States of America maturing as to principal and interest in such amounts and at such times as will insure, without reinvestment, the availability of sufficient moneys to make such payment (which shall be evidenced by a report, in form satisfactory to the Trustee, of a firm of independent certified public accountants acceptable to the Trustee), and (b) all compensation and expenses of the Trustee pertaining to each Series 1999 Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When any Series 1999 Bonds are deemed paid, the Trustee will return a proportionate aggregate principal amount of the Series 1999 General Mortgage Bonds relating to such Series 1999 Bonds to the Mortgage Trustee for cancellation. No deposit will be made or accepted and no use made of any such deposit which would cause any Series 1999 Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code.

In the event that the principal and/or interest due on the Series 1999 Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Series 1999 Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Authority to the Bondholders shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such Bondholders.

Voting of Series 1999 General Mortgage Bonds Held by the Trustee

The Trustee, as a holder of Series 1999 General Mortgage Bonds, may attend any meeting of bondholders under the General Mortgage Indenture. Either at such meeting, or otherwise where consent of holders of Series 1999 General Mortgage Bonds is sought without a meeting, the Trustee may vote the Series 1999 General Mortgage Bonds held by it, or may consent with respect thereto, as the Trustee deems to be in the best interests of the Bondholders.

Notwithstanding the foregoing, the Trustee is not to vote any of the Series 1999 General Mortgage Bonds held by it in favor of, or give its consent to, any action which in the Trustee's opinion would materially adversely affect the interests of the Bondholders, except upon notification by the Trustee to the Bondholders of such proposal and consent thereto of at least 66-2/3% in aggregate principal amount of all the outstanding Series 1999 Bonds which would be affected by the proposed action and the Trustee shall not, without the unanimous consent of the holders of all Series 1999 Bonds then outstanding, vote any of the Series 1999 General Mortgage Bonds held by it in favor of, or give its consent to, any action which would (1) decrease the amounts payable on the Series 1999 General Mortgage Bonds held by the Trustee, or (2) change the date of payment of principal of or interest on, or change the redemption provisions of, the Series 1999 General Mortgage Bonds held by the Trustee, or (3) reduce the percentage of aggregate principal amount of Series 1999 General Mortgage Bonds necessary to amend the General Mortgage Indenture.

Consent or Direction by the Bond Insurer

All rights granted the Bond Insurer to direct or consent to actions to be taken under any provision of the Indenture shall be effective only if the Bond Insurer shall, at the time thereof, be in compliance with its payment obligations under the Bond Insurance Policy.

THE CONTINUING DISCLOSURE AGREEMENT

Provision of Annual Report

The Company covenants that it shall, or shall cause the Dissemination Agent to, not later than four months after the end of its Fiscal Year (which currently would be April 30) commencing with the report for the Fiscal Year ending December 31, 1999, provide to each Nationally Recognized Municipal Securities Information Repository ("National Repository") and any public or private repository or entity designated by the State of Illinois as a state repository and recognized as such by the Securities and Exchange Commission ("State Repository" and, together with each National Repository, a "Repository") an Annual Report which shall contain or include (which inclusion may be by incorporation by reference of documents previously provided to each Repository or filed with the Securities and Exchange Commission) in addition to its audited financial statements for such Fiscal Year, an annual update of certain of the information set forth in Appendix A, consisting of the financial information and operating data contained on pages 6 and 8 through 10 thereof, in substantially the same format contained in said Appendix A.

If any financial information or operating data so required no longer can be generated because the operations to which it relates have been materially changed or discontinued, a statement to that effect will be deemed to satisfy such requirements.

The audited financial statements of the Company may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date.

Reporting of Listed Events

The Company covenants that it will file or cause the Dissemination Agent to file with each Repository, on behalf of the Company, notice of the occurrence of any of the following events with respect to the Bonds ("Listed Events"), if such event is material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders.
4. bond calls;
5. defeasances;
6. rating changes;

- adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on any reserve fund reflecting financial difficulties;
9. unscheduled draws on the Bond Insurance Policy reflecting financial difficulties;
10. substitution of the provider of the Bond Insurance Policy, or any failure by the Bond Insurer to perform its obligations under the Bond Insurance Policy;
11. release, substitution or sale of property securing repayment of the Bonds.

Whenever the Company obtains knowledge of the occurrence of a Listed Event, the Company shall as soon as possible determine if such event would be material.

If the Company has determined that the occurrence of a Listed Event would be material, the Company shall promptly file a notice of such occurrence with the Repositories. Notice of the occurrence of a Listed Event described in (1), (4) or (5) above shall be given by the Company. Notice of Listed Events described in (4) and (5) above need not be given any earlier than the notice (if any) of the underlying event is given to Bondholders pursuant to the Indenture.

Nationally Recognized Municipal Securities Information Repository

A Nationally Recognized Municipal Securities Information Repository is each entity so designated by the Securities and Exchange Commission. At the date hereof the following have been so designated:

Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558

P. O. Box 840
Princeton, New Jersey 08542-0840
Phone: (609) 279-3200
Fax: (609) 279-5962
E-Mail: Munis@Bloomberg.com

Thomson NRMSIR
Attn: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, New York 10014
Phone: (212) 807-5001
Fax: (212) 989-2078
E-Mail: Disclosure@Muller.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-Mail: nrmsir@dpcdata.com

Kenny Information Systems, Inc.
Attn: Kenny Repository Service
65 Broadway - 16th Floor
New York, New York 10006
Phone: (212) 770-4595
Fax: (212) 797-7994

As of the date hereof, there is no State Repository.

Amendment of Disclosure Agreement; Waiver

The Company may amend the Disclosure Agreement and any provision of the Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Company and any Dissemination Agent to the effect that such amendment or waiver either (a) would not, in and of itself, cause the undertakings in the Disclosure Agreement to violate S.E.C. Rule 15c2-12(b)(5), as amended (the "Rule"), if such amendment or waiver had been effective on the date of the initial issuance and delivery of the Series 1999 Bonds but taking into account any subsequent change in or official interpretation of the Rule; or (b) is otherwise permitted by the Rule.

Default

In the event of a failure of the Company (or any Dissemination Agent) to comply with any provision of the Disclosure Agreement, the Trustee may (and, at the request of the Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any such holder may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Company or the Dissemination Agent, as the case may be, to comply with its obligations under the Disclosure Agreement. A default under the Disclosure Agreement shall not be deemed an Event of Default under the Indenture, the Loan Agreement or the General Mortgage Indenture, and the sole remedy under the Disclosure Agreement in the event of any failure of the Company (or any Dissemination Agent) to comply with the terms thereof shall be an action to compel performance.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Series 1999 Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States of America, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Authority and the Company have covenanted to comply with all requirements that must be satisfied in order for the interest on the Series 1999 Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Series 1999 Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Series 1999 Bonds.

Subject to compliance by the Authority and the Company with the above-referenced covenants, under present law, in the opinion of Bond Counsel, the interest on the Series 1999 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes, except for interest on any Series 1999 Bond for any period during which such Series 1999 Bond is owned by a person who is a substantial user of the Project or any person considered to be related to such person (within the meaning of Section 147(a) of the Code). Interest on the Series 1999 Bonds is included, however, as an item of tax preference in computing the alternative minimum tax for individuals and corporations.

In rendering its opinion, Bond Counsel will rely upon certificates of the Authority and the Company with respect to certain material facts solely within the respective knowledge of the Authority and the Company, relating to the Project and the application of the proceeds of the Bonds.

Under the provisions of Section 884 of the Code, a branch profits tax is levied on the "effectively connected earnings and profits" of certain foreign corporations, which include tax-exempt interest such as interest on the Series 1999 Bonds.

Ownership of the Series 1999 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 1999 Bonds should consult their tax advisors as to applicability of any such collateral consequences.

If a Series 1999 Bond is purchased at any time for a price that is less than the stated redemption price at maturity of the Series 1999 Bond, the purchaser will be treated as having purchased the Series 1999 Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series 1999 Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the election of the purchaser, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series 1999 Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 1999 Bonds.

From time to time, there are legislative proposals in the Congress of the United States of America that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Series 1999 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Series 1999 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal legislation.

It is also the opinion of Bond Counsel, under Illinois law as presently enacted and construed, that the interest on the Series 1999 Bonds is exempt from present Illinois income taxes, except estate, transfer and inheritance taxes. Ownership of the Series 1999 Bonds may result in other state and local tax consequences. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 1999 Bonds. Purchasers of the Series 1999 Bonds should consult their own tax advisors regarding the potential implications of such collateral consequences.

BOND RATING

It is anticipated that Standard & Poor's Ratings Services, a Division of the McGraw Hill Companies, Inc., will assign the Series 1999 Bonds the rating set forth on the cover page hereof conditioned upon the issuance and delivery by the Bond Insurer at the time of delivery of the Series 1999 Bonds of its Bond Insurance Policy insuring the timely payment of the principal of and interest on the Series 1999 Bonds. Such rating reflects only the view of such rating agency, and an explanation of the significance of such rating may be obtained only from such rating agency at the following address: Standard & Poor's Ratings Service, 25 Broadway, New York, New York 10004. There is no assurance that such rating will remain in effect for any given period of time or that it will not be revised downward or withdrawn entirely by said rating agency if, in its judgment, circumstances warrant. Neither the Authority, the Underwriter nor the Company has undertaken any responsibility to bring to the attention of the holders of the Series 1999

Bonds any proposed downward revision or withdrawal of a rating of the Series 1999 Bonds or to oppose any such proposed downward revision or withdrawal. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 1999 Bonds.

At present, Standard & Poor's maintains four categories of investment grade ratings. They are "AAA," "AA," "A" and "BBB." Standard & Poor's defines "AAA" as the highest rating assigned to a debt obligation; the capacity to pay interest and repay principal is extremely strong.

LITIGATION

Authority

At the time of sale and delivery of the Series 1999 Bonds, the Authority will deliver a certificate to the effect that there is no litigation or proceedings pending or, to the best of its knowledge, threatened seeking to enjoin the issuance, execution, or delivery of the Series 1999 Bonds, or in any way contesting or affecting its authority for the issuance, execution, or delivery of the Series 1999 Bonds, or the validity of the Series 1999 Bonds, or contesting the existence or powers of the Authority material to the issuance of the Series 1999 Bonds.

Company

To the knowledge of the Company there is no legal action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body for which the Company has been served with process or official notice or threatened against or affecting the Company, wherein an unfavorable decision, ruling or finding would adversely affect the transaction contemplated by this Official Statement or the validity of the Series 1999 Bonds, the Indenture, the Loan Agreement or any agreement or instrument to which the Company is a party and which is used or contemplated for use in the transactions contemplated by this Official Statement, and no member, employee or agent of the Company has been served with any legal process regarding such legal litigation or other proceeding.

For information regarding proceedings involving ongoing environmental matters, see information under the caption "ENVIRONMENTAL MATTERS" in Appendix A hereto.

UNDERWRITING

Edward D. Jones & Co., L.P. (the "Underwriter") has agreed, subject to certain conditions, to purchase the Series 1999 Bonds from the Authority at a purchase price equal to 100% of the principal amount thereof. As a condition to such purchase, the Company shall pay the Underwriter a placement fee of \$919,350 (3% of the principal amount of the Series 1999 Bonds). The Underwriter has agreed to purchase all of the Series 1999 Bonds if any are purchased. The Series 1999 Bonds may be offered and sold to certain dealers (including dealers depositing Series 1999 Bonds into investment accounts) and to others at prices lower than the initial public offering price. After the Series 1999 Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriter. The Company has agreed to indemnify the Underwriter and the Authority against certain civil liabilities.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Series 1999 Bonds are subject to the unqualified approving opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel. The form of bond counsel opinion is set forth in Appendix C to this Official Statement. Certain legal matters will be passed upon for the Authority by Thompson Coburn LLP, St. Louis, Missouri; for the Company by its special counsel, Jones, Day, Reavis & Pogue, Chicago, Illinois, and by its counsel, Sue A. Schultz, Esq.; and for the Underwriter by Bryan Cave LLP, St. Louis, Missouri.

The use of this Official Statement has been duly authorized by the Authority.

ILLINOIS-AMERICAN WATER COMPANY



By: /s/ T. L. Gloriod
President

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APPENDIX A

DESCRIPTION OF THE COMPANY

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APPENDIX A

The information contained in this Appendix A relates to and has been obtained from the Company. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Company since the date hereof, or that the information contained or incorporated by reference in this Appendix A is correct at any time subsequent to its date.

DESCRIPTION OF THE COMPANY

Illinois-American Water Company (formerly Peoria Water Company) was incorporated in the State of Illinois on September 21, 1967. The Company is a subsidiary of American Water Works Company, Inc., and assumed its present form on January 1, 1985 when the Alton Water Company and Illinois-American Water Company merged with and into Peoria Water Company, the surviving company. At the time of the merger, the name of Peoria Water Company was changed to Illinois-American Water Company.

The Company is a duly organized and validly existing corporation in good standing under the laws of the State of Illinois and it has the power and authority necessary for the adequate conduct of its water utility business. Illinois-American Water Company now consists of five Districts divided into two Divisions. The Southern Division is comprised of the Alton District, Cairo District, and Interurban District, while the Northern Division includes the Pekin District and Peoria District. Each of these districts collects, treats, and distributes water for public and private use, including use for public fire protection.

The current officers and directors of the Company are listed below. (Directors serve one year terms.)

<u>NAME</u>	<u>TITLE</u>
T. L. Gloriod	President and Director
R. D. Mitchem	Vice President
C. W. Overath	Vice President and Treasurer
S. A. Schultz	Secretary
R. D. Stafford	Assistant Treasurer and Assistant Secretary
S. K. Cole	Assistant Treasurer
D. S. Hobbs	Comptroller
J. G. Needler	Assistant Comptroller
J. James Barr	Director
D. L. Kelleher	Director
G. C. Smith	Director
E. H. Gemmill	Director
T. E. Holloway	Director
P. W. Ware	Director

DESCRIPTION OF THE SERVICE AREAS

Alton District

The Alton District is located on the north side of the Mississippi River, approximately 25 miles north of St. Louis, Missouri. The District supplies water to the City of Alton and the communities of Elsah, Godfrey, Fosterburg and Brighton; all of which are located in Madison County, Illinois. The

Company also serves the communities of Jerseyville and Chatouaque in Jersey County and four water districts.

The economy of the District's service area is widely diversified. Among the larger firms within the City of Alton are Laclede Steel Company, manufacturer of carbon and alloy steel and Con-Agra Company, an agribusiness dealing in flour and grain milling/exporting. Laclede Steel Company has presently filed for reorganization under the United States Bankruptcy Code. Also located in the community, but not served by the District, are Olin Corporation, producers of brass and cartridges for firearms, and three large petro-chemical refineries: Amoco, Shell, and Clark.

The Alton District currently provides water service to approximately 17,469 customers, of which approximately 89% are residential; 10% are commercial; and 1% are industrial, public & private fire protection or other. The typical residential customer in the District pays approximately \$301 per year for metered water service billed under rates in effect as of December 28, 1997.

The water supply for the Alton District is obtained from the Mississippi River, and the District's main pump station, filtration plant, and laboratory are located at the northwest boundary of the City of Alton.

The Company intends to construct a new treatment facility for its Alton District to replace the current facility, which is at the end of its useful life. Construction of the new facility is to commence in the second quarter of 1999, and is to be completed by December 31, 2000. The Company has commenced the process of obtaining a discharge permit for the new facility, and will obtain all required permits prior to the operation of the new facility.

Distribution storage is provided by four facilities: the Cardinal Street standpipe with 2.22 MG (million gallon) capacity; the Harold Street standpipe with 1.54 MG capacity; the Godfrey elevated tank with 0.5 MG capacity; and the Principia ground storage tank which has a capacity of 1.0 MG. The distribution system consists of approximately 264 miles of main, and in 1998 the average daily system delivery was 8.5 MG.

Cairo District

The Cairo District is located in the southernmost section of Illinois at the confluence of the Mississippi and Ohio Rivers. Cairo is located 150 miles south of St. Louis, Missouri and 30 miles west of Paducah, Kentucky. The Cairo District provides water service to customers in the City of Cairo and surrounding unincorporated areas. All of the communities served are in Alexander County, of which Cairo is the county seat.

The economy of the service area is built on a foundation of industry, river services, agriculture and related enterprises, and service-oriented businesses. Among the larger firms in the community are: Bunge Corporation, a soybean processing plant; Burkart Manufacturing Company, producer of foam rubber used in automobile seats; and Waterfront Services, operators of fleeting and docking operations.

The Cairo District currently provides water service to approximately 1,550 customers, of which approximately 79% are residential; 15% are commercial; and 6% are industrial, public & private fire protection or other. The typical residential customer in this District pays approximately \$301 per year for metered water service billed under rates in effect as of December 28, 1997.

The Cairo District's water supply is obtained from the Ohio River. The intake pumps, treatment facility, and high service pumps are housed in a Company-owned brick masonry building which was constructed in 1936. A low service pit was placed in service in 1887 and a clearwell was constructed in 1916. In addition, the Company owns a second intake station and intake pumps that are not currently operated.

Distribution storage is provided by a single steel elevated tank with 0.2 MG of capacity. The distribution system consists of approximately 40 miles of main, and in 1998 the average daily system delivery was 1.0 MG.

Interurban District

The Interurban District of Illinois-American Water Company is situated in southwestern Illinois directly east of the city of St. Louis, Missouri. The District provides water service to a population of about 250,000 in a 500 square-mile area in St. Clair, Madison, and Monroe Counties. The District's office, located in Belleville, Illinois, serves customers in 30 communities and 5 townships directly or through its resale customers.

The economy of the service area is both industrial and agricultural. Among the larger firms in the service area are: Granite City Steel, a subsidiary of National Steel; Solutia Company-Krummrich Plant; Elemtis Incorporated; Big River Zinc Company; and Cerro Copper and Brass. Scott Air Force Base, the world headquarters of the Military Airlift Command with a working population of 10,200, is also a major customer of the Company.

The District currently provides water service to approximately 66,913 customers, of which approximately 89% are residential; 10% are commercial; and 1% are industrial, public & private fire protection or other. The typical residential customer in the Interurban District pay approximately \$301 per year for metered water service billed under rates in effect as of December 28, 1997.

The water supply for the Interurban District is obtained from the Mississippi River at two separate locations which are approximately 10 miles apart. The East St. Louis intake is located at Mile 180.8 on the Mississippi River directly across from St. Louis, Missouri, and the Chouteau Island intake is located at Mile 192.1 just north of Granite City, Illinois. The District has treatment facilities located in East St. Louis and Granite City. Combined, these two facilities have a treatment capacity of 69.3 MGD (million gallons per day).

Distribution storage is provided by eleven facilities: the Granite City ground storage reservoir with a 2.0 MG capacity; the Granite City elevated tank with 0.5 MG capacity; the Converse Avenue elevated tank with a 0.25 MG capacity; two French Village ground storage reservoirs, each with 2.5 MG capacity; two Edgemont Station ground storage reservoirs, each with 2.5 MG capacity; two ground storage reservoirs at Belleville Deep Well Station, each with 2.0 MG capacity; the Yorktown elevated tank with 0.5 MG capacity; and the Prairieview standpipe which has a capacity of 1.0 MG.

The distribution system consists of approximately 1003 miles of main, and in 1998 the average daily system delivery was 44.5 MG.

Pekin District

The Pekin District is located in central Illinois, 10 miles south of Peoria. The District provides water service to customers in the City of Pekin and surrounding unincorporated areas. All of the communities served are in Tazewell County, of which Pekin is the county seat.

The economy of the service area is built on a foundation of industry, agriculture and related enterprises, and service-oriented businesses. Among the larger firms in the community are Commonwealth Edison Company, supplier of electric energy; the headquarters of Pekin Insurance Company (which employs 400 people); Midwest Grain, producer of alcoholic beverages; Pekin Energy Corporation, producer of ethanol, a gasoline additive; and a Federal Bureau of Prison Facility, which employs 350 and houses 1,000.

The Pekin District currently provides water service to approximately 13,437 customers, of

which approximately 91% are residential; 8% are commercial; and 1% are industrial, public & private fire protection or other. The typical residential customer in this District pays about \$246 per year for metered water service billed under rates in effect as of December 28, 1997.

The Pekin District obtains its water supply from seven wells located in or near the City of Pekin. Each well discharges directly into the Main Service distribution system, and all water is treated with chlorine and fluoride prior to being discharged.

Distribution storage is provided by five facilities: the Sheridan elevated tank with 0.25 MG of capacity; the Sheridan reservoir with a capacity of 0.73 MG; the Court Street elevated tank with a capacity of 0.5 MG; the Court Street reservoir with 2.50 MG of capacity; and the County Home elevated tank which has a capacity of 0.05 MG. The distribution system consists of approximately 172 miles of main, and in 1998 the average daily system delivery was 6.7 MG.

Peoria District

The Peoria District's service area encompasses a 75 square mile area in central Illinois. In particular, water service is provided to: the City of Peoria, the City of West Peoria, the Village of Bartonville, the Village of Bellevue, the community of Rome, the community of Camelot Lake Estates, and parts of several surrounding townships including Peoria, Richwoods, Medina, Kickapoo, Limestone, and Hollis. In addition, the Company sells water for resale to the Village of Dunlap, the Village of Hanna City, and the Timber Logan Rural Water District.

Some of the larger firms in the service area are: Caterpillar Tractor Company and Haulpac (a division of Komatsu-Dresser), both manufacturers of heavy earth-moving equipment; Keystone Consolidated, manufacturer of steel wire and fencing; Central Illinois Light Company, producer of electricity and gas; Archer Daniels Midland Company, processor of corn by-products; and Bemis Company, Inc., producer of paper bags for industrial use. Bradley University is also located within the District's service territory.

The Peoria District currently provides water service to approximately 48,299 customers, of which approximately 89% are residential, 8% are commercial, and 3% are industrial, public & private fire protection or other. The typical residential customer in this District pays about \$301 per year for metered water service billed under rates in effect as of December 28, 1997.

The Peoria District obtains its water supply from the Illinois River, the main well at the Main Station along the Illinois River and 13 other wells in the Peoria area. After treatment, the water is delivered to the distribution system from four points (i.e. the Main Station, the San Koty well station, the Dodge Street well station, and the Griswold Street station.)

Distribution storage is provided by seven facilities: three ground storage tanks with a combined capacity of 12.6 MG; two elevated tanks on University Street with a combined capacity of 2.0 MG; the Route 116 elevated tank with 0.75 MG of capacity; and the Hospital elevated tank which has a capacity of 0.5 MG.

The distribution system consists of approximately 623 miles of main, and in 1998 the average daily system delivery was 22.3 MG.

RECENT DEVELOPMENTS

Merger

The Company's parent Company, American Water Works Company, Inc. ("American Water"), has entered into a pooling-of-interest arrangement with National Enterprises Inc. ("NEI"),

subject to certain regulatory approvals. Under the arrangement, NEI will merge into American Water. NEI owns Continental Water Company, which, in turn, owns Northern Illinois Water Company ("NIWC"). NIWC is an Illinois public utility which provides water service within and around the cities of Champaign-Urbana; Pontiac; Streator; and Sterling, Illinois. It is anticipated that, upon receipt of all necessary approvals, NIWC will be merged with and into Illinois-American.

Competition

Two sale for resale customers in the Company's Interurban District (i.e., the City of Columbia and the Commonfields of Cahokia Public Water District) joined together to form a Municipal Joint Action Water Agency to construct a proposed pipeline under the Mississippi River, in order to purchase water from the City of St. Louis. The Company has provided this Agency a tariff rate for water service which matched the rate they would have received from St. Louis, plus the amortized cost of the proposed pipeline. The average annual revenues from sales to these two customers, over the five-year period prior to implementation of such tariff rate was \$1,032,301. Annual revenues under the tariff rate are projected to be \$856,000. Certain industrial customers of the Company which are located in its Interurban District (being Solutia, Inc.; Big River Zinc Corporation; and Ethyl Petroleum Additives, Inc.) were also offered a proposal to take water service from this Water Agency. The Company and these industrial customers have entered into a second competitive tariff pursuant to which the Company will match the Water Agency's proposal to this group. Both tariffs have been approved by the Illinois Commerce Commission. The average annual revenues from sales to such industrial customers over the most recent five-year period have been \$2,038,810. This competitive contract will produce an estimated annual revenue stream of \$1,383,915. The total loss of revenues from the two sale-for-resale customers was reflected in the rates of the Company which became effective on December 28, 1997; so that the net effect of the two tariffs is minimal.

Two additional sale for resale customers have indicated that they will undertake a study to determine the feasibility of constructing a pipeline to purchase water from the City of St. Louis. The average annual revenue from sales to these latter two customers for the five years ending December 31, 1998 was \$1,793,539. The Company does not presently believe that construction of a pipeline would be economically feasible for these two customers. Should a competitive proposal be ascertained, however, the Company will seek to have a competitive tariff approved for them.

Municipalization

From time to time, municipalities in which the Company provides retail service examine the potential to municipalize the Company's system either through a negotiated sale or a condemnation. In either event, the municipality would be required to pay the Company the fair market value of the assets to be acquired. Currently, both the City of Peoria and the City of Pekin are considering municipalization. The City of Peoria has attempted to initiate an option it believes it has under a 1889 franchise ordinance to acquire the Peoria District assets. The Company does not believe this option is valid and has requested a declaratory judgment to that effect from the St. Clair County Circuit Court. Should the option be upheld, appraisals will be conducted to determine cash value so that the City may decide if it wishes to purchase the assets. In Pekin, a committee formed by the City Council to determine the feasibility of acquiring the Company's Pekin District assets through condemnation, recently recommended to the City Council that it proceed to initiate the steps required to institute condemnation. The City of Pekin also recently authorized development of a new City owned water system to serve certain areas within the Company's certificated service area which are currently undeveloped but where development has been proposed. The City has also enacted a requirement that the developers in this area agree to take water service from the City as a condition to that area being annexed to the City. The Company is evaluating what action, if any, it may take in response to these initiatives by the City.

SUPPLY CAPABILITY AND DAILY DEMAND STATISTICS

Summary of Supply Capability

	Alton District	Cairo District	Interurban District	Pekin District	Peoria District	Total Company
Source of Supply - Surface	100.0%	100.0%	100.0%	0.0%	41.1%	
- Wells	0.0%	0.0%	0.0%	100.0%	58.9%	
Rated Production Capacity (Million Gallons Per Day)	18.29	4.00	69.30	15.59	36.70	143.88
Distribution Storage Capacity (Million Gallons)	12.17	0.33	23.77	4.04	19.87	60.18

Daily Demand (Million Gallons Per Day)

	Alton District	Cairo District	Interurban District	Pekin District	Peoria District	Total Company
1998 - Average	8.5	1.0	44.5	6.7	22.3	83.0
- Maximum	12.4	1.8	61.7	9.5	33.0	118.4
1997 - Average	8.5	1.0	41.9	6.3	20.9	78.6
- Maximum	12.2	1.6	57.6	10.3	35.2	116.9
1996 - Average	8.6	1.3	43.1	5.7	20.8	79.5
- Maximum	11.8	1.9	58.8	8.7	31.0	112.2
1995 - Average	8.6	1.2	40.2	5.3	20.9	76.2
- Maximum	11.6	1.4	55.3	9.3	32.8	110.4
1994 - Average	8.8	1.2	44.0	5.1	20.8	79.9
- Maximum	11.4	2.3	56.6	8.4	35.1	113.8

COMPANY PLANT INVESTMENT

The Company's utility plant investment has increased from \$218,212,042 at December 31, 1993 to \$311,912,755 at December 31, 1998. This represents a 42.9% growth in total plant facilities over the past 5 years, or approximately 8.6% annually. The increase is broken down by category as follows:

Source of Supply	\$1,760,371
Treatment and Pumping Facilities	36,843,855
Transmission and Distribution Facilities	30,410,152
Services, Meters and Hydrants	16,351,800
General Structures and Equipment	7,345,315
Other	<u>989,220</u>
 Total Increase	 <u><u>\$93,700,713</u></u>

Construction expenditures for the five years 1999 through 2003 are projected to be approximately \$137 million. The anticipated expenditures are as follows:

Construction of a Routine Nature	\$41,544,000
Transmission, Distribution & Storage Facilities	28,640,000
Source, Treatment & Pumping Facilities	51,396,000
General Structures and Equipment	<u>15,591,000</u>
 Total Construction Expenditures	 <u><u>\$137,171,000</u></u>

It is expected that approximately 55% of the proposed construction will be financed from internal sources, of which retained earnings, depreciation, and deferred taxes are the major elements.

REVENUE, WATER SALES, AND CUSTOMER STATISTICS

	1994	1995	1996	1997	1998
Revenues (Dollars in Thousands)					
Residential	\$31,994	\$32,845	\$36,579	\$34,705	\$37,490
Commercial	9,816	10,048	10,935	10,692	12,280
Industrial	6,964	6,818	7,692	7,712	8,581
Other	10,205	10,500	11,368	11,427	13,635
Total Revenues	<u>\$58,979</u>	<u>\$60,211</u>	<u>\$66,574</u>	<u>\$64,536</u>	<u>\$71,986</u>

Water Sales (Thousands of Gallons)

Residential	8,485,856	8,623,995	8,987,895	8,450,440	8,271,130
Commercial	4,713,038	4,812,870	4,787,621	4,639,637	4,726,797
Industrial	6,066,361	5,986,782	6,222,472	6,401,324	6,609,209
Other	5,415,826	5,629,413	5,786,972	5,901,133	5,923,859
Total Water Sales	<u>24,681,081</u>	<u>25,053,060</u>	<u>25,784,960</u>	<u>25,392,534</u>	<u>25,530,995</u>
Other Uses & Unaccounted For	<u>4,504,233</u>	<u>2,687,115</u>	<u>3,203,583</u>	<u>3,335,774</u>	<u>4,844,483</u>
Total System Delivery	<u>29,185,314</u>	<u>27,740,175</u>	<u>28,988,543</u>	<u>28,728,308</u>	<u>30,375,478</u>

Customers (Year End)

Residential	128,394	128,766	129,450	129,632	130,876
Commercial	13,527	13,489	13,409	13,555	14,100
Industrial	327	329	335	331	324
Other	1,808	1,856	2,097	2,222	2,368
Total Customers	<u>144,056</u>	<u>144,440</u>	<u>145,291</u>	<u>145,740</u>	<u>147,668</u>

Total Revenues - Percent of Total by Classification

Year	Residential	Commercial	Industrial	Other	Total
1994	54.2%	16.6%	11.8%	17.4%	100.0%
1995	54.5%	16.7%	11.3%	17.5%	100.0%
1996	54.9%	16.4%	11.6%	17.1%	100.0%
1997	53.8%	16.6%	11.9%	17.7%	100.0%
1998	52.1%	17.1%	11.9%	18.9%	100.0%

Total Water Sales - Percent of Total by Classification

Year	Residential	Commercial	Industrial	Other	Total
1994	34.4%	19.1%	24.6%	21.9%	100.0%
1995	34.4%	19.2%	23.9%	22.5%	100.0%
1996	34.9%	18.6%	24.1%	22.4%	100.0%
1997	33.3%	18.3%	25.2%	23.2%	100.0%
1998	32.4%	18.5%	25.9%	23.2%	100.0%

SCHEDULE OF TEN LARGEST CUSTOMERS
FOR THE TWELVE MONTHS ENDED 12/31/98

<u>CUSTOMER</u>	<u>CLASS</u>	<u>REVENUES</u>	<u>% OF TOTAL REVENUE</u>	<u>WATER SALES (1,000 GAL.)</u>	<u>% OF TOTAL WATER SALES</u>
NATIONAL STEEL COMPANY	IND	\$2,068,285	2.86%	1,460,214	5.72%
CITY OF O'FALLON	SFR	\$1,709,343	2.36%	1,223,474	4.79%
MEMJAWA	SFR	\$1,106,595	1.53%	905,216	3.55%
SOLUTIA COMPANY	IND	\$1,070,671	1.48%	985,594	3.86%
HARCROS PIGMENTS	IND	\$842,736	1.16%	598,527	2.34%
SCOTT AIR FORCE BASE	SFR	\$746,423	1.03%	547,727	2.15%
LACLEDE STEEL COMPANY	IND	\$630,286	0.87%	447,425	1.75%
JERSEY COUNTY RURAL	SFR	\$439,387	0.61%	309,406	1.21%
CASEYVILLE	SFR	\$433,866	0.60%	299,572	1.17%
PEKIN ENERGY	IND	\$222,633	0.31%	336,805	1.32%
TOTAL		<u>\$9,270,225</u>	<u>12.81%</u>	<u>\$7,113,960</u>	<u>27.86%</u>

REGULATION

The Company is subject to regulation by the Illinois Commerce Commission as to rates, accounting, issuance of securities, geographical area of service, and quality of service.

Requests for rate adjustments can be based on one of the three following test years:

- (1) Historical Test Year - latest 12 month period for which actual data is available.
- (2) Current Test Year - any consecutive 12 month period ending not later than 12 months after the date on which new tariffs are filed.
- (3) Future Test Year - any consecutive 12 month period ending not later than 24 months after the date tariffs are filed.

Illinois-American has historically selected a Future Test Year for filing its requests for rate adjustments.

The Illinois Commerce Commission must issue an order for rate adjustments within eleven months after a request is filed, and during the last ten years, the Company received rate adjustments from the Commission and was granted additional revenue as follows:

<u>Date Filed</u>	<u>Effective Date</u>	<u>Amount Requested</u>	<u>Revenue Granted</u>	<u>% of Request</u>
Feb. 16, 1990	Dec. 1, 1990	\$ 6,962,430	\$ 3,948,087	56.7%
Mar. 13, 1992	Feb. 9, 1993	\$ 10,533,418	\$ 7,582,262	72.0%
Feb. 1, 1995	Jan. 30, 1996	\$ 6,438,796	\$ 4,834,056	75.1%
Jan. 31, 1997	Dec. 28, 1997	\$ 10,190,046	\$ 7,301,124	71.6%

ENVIRONMENTAL MATTERS

The Company is subject to regulation by the Illinois Environmental Protection Agency ("Illinois EPA") with respect to water supply, the purity of water, treatment residuals, and plans and specifications for the construction, improvement, alteration and operation of public water supply systems. The Company is also subject to regulation by the United States Environmental Protection Agency ("USEPA") as to the quality of water supplied to customers and treatment residuals. The USEPA promulgates nationally applicable maximum contaminant levels ("MCLs") and mandatory treatment techniques for contaminants that might be found in drinking water. As a result of the varying assimilative capacities of the waterbodies that may receive discharges from public water supply plants, the USEPA has never established effluent guidelines for the water supply industry. Instead, as discussed below, discharge permits establishing effluent standards are issued, on a case by case basis, under Section 402(a) of the Clean Water Act, 33 U.S.C. §1342(a)(1).

The Company operates water purification plants on the Mississippi River, withdrawing raw water from the river, separating out the sediment in the raw water to provide potable water to its customers, and returning the separated sediments to the river. As a result of the high content of total suspended solids ("TSS") and total iron in the raw river water, the Company's discharge to the river has exceeded the standard industrial effluent limitations for TSS and total iron since 1977. The Company has successfully obtained from the Illinois Pollution Control Board ("Board") legal relief from these standards for both its Alton and East St. Louis water treatment plants. The Company's requests for relief were based on the fact that the separated sediments are comprised almost wholly of natural river sediments and that return of these nontoxic sediments to the river is more environmentally sound and economically reasonable than other potential forms of disposal. The requests were granted by an exemption for each facility from the industrial effluent standards for TSS and total iron.

For the Alton facility, a site specific variance was granted by the Board in March of 1984, pursuant to Section 304.206 of Title 35, Subpart B. The Company is pursuing similar relief for the replacement Alton treatment plant, which will be constructed for its Alton District. The Board granted an adjusted standard for the East St. Louis facility on May 20, 1993. This exemption was granted pursuant to a 1990 amendment to the Illinois Environmental Protection Act, which provides that the Board may establish an adjusted discharge standard for certain public water supply treatment discharges, 415 ILCS 5/28.3. The exemption requires the Company to use certain types of water treatment additives which have been used at the plant since 1991. The Company may use additional types of coagulants at this plant upon approval by the Illinois EPA, and has the right to appeal to the Board any denial of such approval.

At Granite City and Peoria, treatment residuals are treated and landfilled. At Peoria the supernatant is then discharged back into the Illinois River. In Granite City the supernatant is discharged into the local sewer collection system. Similarly, the Company's Cairo facility discharges into the municipal sewer system. Therefore, these latter two facilities are not currently subject to the effluent discharge standards from which the Company has obtained relief at its East St. Louis and Alton facilities. The Company's Pekin district is supplied by wells, for which there are no treatment residuals. National Pollution Discharge Elimination System (NPDES) permits have been issued for the above mentioned plants and are scheduled to expire between October 31, 2000 and October 31, 2003. Renewal permits will be sought, in due course.

The Company is committed to compliance with all applicable environmental regulations and all drinking water regulations, and is currently in substantial compliance with such regulations. The Company fully expects construction costs, if any, and those incremental operating and maintenance expenses required to meet discharge control requirements and new drinking water regulations as may be applicable in the future, to be recognized by the Illinois Commerce Commission in setting the Company's rates and charges.

EXECUTIVE PROFILE

T. L. Gloriod was named President of Illinois-American Water Company on April 1, 1999. Prior to that time, he was Vice President, Operations of the Continental Water Company and Chairman of the Board of Continental's subsidiary utilities in St. Louis County, Missouri; Northern Illinois; Northwest Indiana; and Long Island, New York. Mr. Gloriod has worked for Continental Water or its subsidiaries since June 1969. Mr. Gloriod holds a Bachelor of Science degree from Washington University, St. Louis. He is a registered Professional Engineer in Missouri. Mr. Gloriod is a past Director and Vice President of the American Water Works Association. He is a current Director of the National Association of Water Companies, and a Member of the Board of Trustees of the American Water Works Association Research Foundation.

R. D. Mitchem is Vice President - Operations of Illinois-American Water Company. Mr. Mitchem joined West Virginia-American Water Company in 1971. In 1978 he was transferred as Manager of West Virginia's Hinton District to Manager of Ohio-American Water Company - Marion District. In 1988, Mr. Mitchem was transferred to Illinois-American Water Company and became Operations Manager of the Southern Division. In 1998, he earned his present position. Mr. Mitchem holds a Bachelor of Science degree in Civil Engineering from Bluefield State College in Bluefield, West Virginia and an MBA from Fontbonne College in St. Louis, Missouri. He is President of Junior Achievement and a member of East Side Associated Industries.

C. W. Overath is Vice President and Treasurer of Illinois-American Water Company. Mr. Overath joined Alton Water Company in 1963 as a trainee and transferred to the Service Company in 1976 where he became Assistant Director of Rates and Revenues. He was later named Manager - Finance for the Western Division of the Service Company. In 1984 Mr. Overath was promoted to Regional Manager - Financial Services of the Service Company where he served until 1993 when he assumed his current position of Vice President and Treasurer with the Company. Mr. Overath holds a Bachelor of Science degree in Business Administration from Southern Illinois University. He is a past director of the National Association of Water Companies and a member of the American Water Works Association.

S. A. Schultz received her J. D. From the University of Illinois College of Law in 1987. Prior to joining the American Water System, she worked as an associate with the St. Louis-based regional law firms of Husch, Eppenger, Donohue, Cornfeld & Jenkins and Thompson & Mitchell in the tax and general business practice areas. Ms. Schultz joined the American Water System in 1994 as Corporate Counsel and Secretary to Illinois-American Water Company. She has served in such capacity since such date. Ms. Schultz is a Certified Public Accountant and a member of the American Bar Association, Missouri Bar Association, Illinois Bar Association, Bar Association of Metropolitan St. Louis, and American Institute of Certified Public Accountants. She is an active member on the National Association of Water Companies' Regulatory Law Committee and the Illinois State Bar Association's Public Utilities and Transportation Law Section Council.

EMPLOYEES

The Company currently has 363 full-time employees, 220 of which are covered by eleven union contracts. The Company considers its relations with both union and non-union employees to be generally satisfactory. Following is a schedule of the union contracts and related employees.

<u>Company District and Bargaining Units</u>	<u>Contract Expiration Date</u>	<u>Covered Employees</u>
<u>SOUTHERN DIVISION</u>		
<u>Alton District</u>		
International Union of Operating Engineers Local #2.....	07/12/99	11
Plumbers & Pipe Fitters Union Local #555.....	12/3/03	20
<u>Calro District</u>		
International Union of Operating Engineers Local #2.....	7/31/99	6
<u>Interurban District</u>		
Laborers International Union of North America Local #459.....	10/21/01	23
Local #100.....	5/20/02	28
Local #397.....	3/31/00	13
Utility Workers of America Local #405.....	6/30/00	30
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APPENDIX B

SELECTED FINANCIAL INFORMATION

APPENDIX B

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